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E.O. 12958: DECL: 07/09/2019
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SUBJECT: NICARAGUAN GOVERNMENT PLANS PILGRIMAGE TO IMF HEADQUARTERS

REF: A) MANAGUA 643 B) MANAGUA 571

Classified By: Ambassador Robert J. Callahan for reasons 1.4 b & d.

Summary

¶1. (C) In his farewell call on the Ambassador, Humberto Arbulu-Neira, the outgoing IMF Resident Representative in Nicaragua, said that he now only gives the GON a 30 percent chance of successfully negotiating a budget support program with the IMF, due to the GON's failure to enact pension reform and curtail certain tax exemptions. According to Arbulu, the GON plans to send a delegation to IMF headquarters in Washington on July 13. Senior GON officials have indicated they may send a broad-based coalition with representatives from civil society, the Church and labor unions to present a "united front." Arbulu told the Ambassador that the World Bank (WB) and the Inter-American Development Bank (IDB) are now reconsidering their budget support to the GON, closely tracking the IMF's position. If the GON is not successful in securing fiscal support, Arbulu predicted that this could trigger the GON to use its Central Bank reserves to fill the void, a move which could damage Nicaragua's macroeconomic stability. End Summary.

¶2. (C) In his July 7 farewell call on Ambassador Callahan, outgoing IMF Resident Representative Humberto Arbulu-Neira told the Ambassador that he now predicts only a "30% chance" of a successful outcome in negotiations between the IMF and the GON on a new fiscal support program. According to Arbulu, the primary obstacles to an agreement remain the GON's reluctance to reform the pension system and curtail tax exemptions for "non-productive" entities, namely non-governmental organizations and churches. These two measures, according to Arbulu, are politically difficult for the GON, especially because pension reform would upset local labor unions. In any event, the Nicaraguan National Assembly is now in recess, so movement on either is unlikely in the short term.

A "United Front" Delegation to Washington?

¶3. (C) Meanwhile, Arbulu confirmed recent press reports that the GON plans to send a large delegation to IMF headquarters during the week of July 13-17 to lobby Managing Director Dominique Strauss-Kahn for an IMF program despite its failure to meet these requirements. Arbulu told the Ambassador that originally the idea was to dispatch two prominent Nicaraguan businessmen: Carlos Pellas, who dominates the rum/sugar sectors and who is active in a variety of other businesses such as banking and automotive dealerships, and Ramiro Ortiz Jr., head of BANPRO, Nicaragua's largest bank. From there, according to Arbulu, President Ortega got hold of the issue and decided that sending a broader group to the IMF, including representatives of civil society, the Church and union leaders, would send a much stronger message of "unity" to the IMF in order to sway the organization toward approving a budget support package.

¶4. (C) A variety of statements on GON/IMF negotiations from senior-level GON officials have been widely broadcast here in recent days. On July 7, Bayardo Arce Castano, Ortega's primary economic advisor, strongly castigated the IMF's mandates on pension reform and decreasing tax exemptions as "unacceptable and inappropriate." On the same day, Arce called for a delegation to present a "united front" to the IMF, including members of civil society and unions. However, on July 9, Central Bank President Rosales adopted a much more business-like tone, essentially saying that the IMF and the GON each have the right to argue their respective positions.

¶5. (C) On July 10, econoff met with Jose de Jesus de Rojas, General Manager of the Central Bank, who confirmed that the primary impediments to

Pessimism on Nicaragua's Macroeconomic Future

¶6. (C) Arbulu also told the Ambassador that the World Bank is now getting "cold feet" on whether or not to disburse its previously planned \$20 million in 2009 budget support to the GON, and that the IDB is developing a similar reluctance. Arbulu said that both banks are closely watching IMF negotiations with Nicaragua. When asked by the Ambassador about possible consequences in the event that the IMF program does not come through (in addition to cancellations of the World Bank and IDB support programs), Arbulu opined that the GON would likely tap Central Bank reserves (approximately \$1 billion) to plug its budgetary gap. This could have negative effects on Nicaragua's macroeconomic stability and eventually lead to capital and exchange controls, whereby Nicaraguan depositors would only be allowed to withdraw limited amounts of dollars determined by the Central Bank.

¶7. (C) Arbulu, who has served as the IMF's Resident Representative in Nicaragua for five years, expressed his personal regret that Nicaragua appears vulnerable to

macroeconomic instability after having made significant strides to improve its overall economic conditions. As an aside, he told the Ambassador that during his tenure in Managua, he has met with President Ortega three times. Arbulu said that Ortega demonstrates little interest in or understanding of even basic economics. Arbulu said that his conversations with Ortega usually follow a similar pattern: Arbulu raises important economic challenges, he solicits Ortega's views, and then Ortega digresses into various unrelated anecdotes.

Comment

¶8. (C) In addition to Central Bank President Rosales and Minister of Finance Guevara, the full membership of the GON's delegation to IMF headquarters remains a bit of a mystery. Ultimately, the composition is in the hands of President Ortega and First Lady Rosario Murillo. Arbulu suggested that if the GON does in fact send a broad-based "coalition" to Washington, comprised of union leaders and others unfamiliar with the technical aspects of the IMF's proposed package, they would not get much of a hearing with the likes of Strauss-Kahn, and would be perceived as amateurish.

CALLAHAN